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UNCLAS SECTION 01 OF 03 WELLINGTON 000387

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E.O. 12356: N/A

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SUBJECT: NEW ZEALAND'S UNIONS FLEXING THEIR MUSCLES

(U) Sensitive but unclassified -- please protect accordingly.

11. (U) Summary: After a decade of quiet on the labor front, New Zealand's unions are again walking the picket line against a spectrum of industries. Emboldened by union-friendly legislation enacted in 2000 and 2004 and anxious to grab a bigger slice of the country's recent prosperity, organized labor has in recent months launched a series of work stoppages in pursuit of higher wages. The stoppages are expected to continue through the Southern Hemisphere winter, possibly affecting the national election campaign that will start sometime within the next 100 days. The timing of labor's newfound restiveness does not please the Labour government, which had thought it had appeased workers by legislating stronger protections for employees, raising the minimum wage, increasing annual leave and providing paid parental leave. End summary.

Striking for more pay

12. (U) In February, the Engineering, Printing and Manufacturing Union (EPMU) -- New Zealand's largest union with 50,000 members -- began a "Fair Share - Five in 05" campaign, seeking a 5 percent annual increase in wages. The campaign was endorsed by 32 other unions, all members of the Council of Trade Unions. Organized labor sees the campaign as the most important since 1991, when a National government crippled the union movement by abolishing compulsory unionism (closed shop) and national awards, which set minimum pay rates and conditions in a particular industry for all workers, even those not in a union.

13. (U) Metal workers on March 15 began a series of one-day strikes in the first industrial action in pursuit of the first national employment agreement in a decade. Other workers -- including university staff, bank workers, bus drivers, miners, hospital workers, furniture and manufacturing workers and security guards -- have followed in step. Most have engaged in brief work stoppages and rolling strikes. A Colgate-Palmolive plant in Petone, outside Wellington, was struck beginning April 4 for the first time in its 50-year history. Coal miners walked out nationwide for 48 hours starting April 21, their first strike in more than 10 years. Staff members at the National Bank of New Zealand held a one-day strike on April 22, their first industrial action in almost 20 years. In April, strikes were called at a rate of almost one a day. There were only 34 work stoppages in all of 2004, when losses in wages and salaries attributed to work stoppages fell to their lowest levels since 1970.

14. (U) Unlike any year since 1991, this year's strikes are hitting a broad cross-section of New Zealand industry, according to labor and business leaders. "It feels like the old days" of militant unionism, said Phil O'Reilly, chief executive of Business New Zealand, which represents the interests of businesses and employers. The recent strikes may reverse a downward trend in work stoppages that started in the late 1970s.

15. (U) The metal workers originally sought a 7 percent annual pay raise, but in early May settled for something less -- a 5 percent pay increase over 15 months. That works out to an annualized increase of about 4 percent. The agreement covers 70 companies so far and more than 1,000 workers. EPMU expects the industrial actions to continue through the New Zealand winter, according to Peter Conway, economist and policy/industrial director for the Council of Trade Unions (CTU). The council's members represent about 88 percent of New Zealand's organized labor, or 300,000 workers.

Feeling strong, but discontent

16. (U) Two factors help explain the recent rise in labor actions, according to business and union representatives. First, organized labor is feeling empowered by two pieces of legislation passed by the Labour government to spur union membership. The Employment Relations Act of 2000, which repealed the National government's 1991 labor relations law,

promotes and supports collective agreements rather than individual contracts that had become the norm for New Zealand workers. An amendment to the law, enacted in late 2004, makes it easier for unions to negotiate multi-employer collective agreements and harder for companies to opt out of such negotiations. The amendment "put more tools in unions' hands," O'Reilly said.

17. (U) Second, workers also have become disgruntled watching their wage rates grow more slowly than the New Zealand economy. Average wage rates increased just 2.5 percent in 2004, amid an economy that grew 4.8 percent. Executives' average salaries rose 5.2 percent last year, and company profits -- based on tax data -- jumped 19 percent. (Even Conway conceded that actual company profits may have been less, since the data included new companies and reflected some deferred losses.) With unemployment in 2004 at 3.6 percent, the lowest in the developed world, workers are feeling emboldened to seek higher wages.

18. (U) Unions are presenting their demand for a 5 percent wage increase as simply a means to provide workers with a "fair share" of the economic growth of the last five years, Conway said. O'Reilly criticized the EPMU's 5 percent campaign for failing to consider differences between industries. Some companies just cannot afford a one-size-fits-all wage increase, he said. Conway noted that the rate was based partly on 2.7 percent inflation in 2004 as measured by the Consumers Price Index.

19. (U) Organized labor also is betting that its well-publicized activism will revive interest in unions and boost sagging membership. Union membership fell by half in the eight years between the National government's 1991 reforms and 1999. Unionized workers numbered 340,413 last year, or 21.5 percent of the workforce, compared to 51 percent of the workforce in 1991, the last year when unions could bargain for a closed shop. The Employment Relations Act of 2000 helped arrest the decline in membership, with unions gaining 40,000 new members since then. But that increase in membership has not kept pace with strong employment growth in recent years. The 2004 amendment could help make a difference: It requires nonunion workers to pay a "bargaining fee" to obtain wage rates and conditions negotiated by a union. While the nonunion workers can choose not to pay the fee, they then would have to negotiate their own contracts. Employers expect that provision to boost union membership, O'Reilly said.

Biting the hand that fed it

10. (U) The timing of the unions' campaign is odd, with the economy showing signs of slowing and with workers' political ally, the Labour Party, seeking a third term in this year's election. Conway explained that, six months ago when the unions were planning their strategy for wage hikes, the economy still was booming. It is not unusual for pay demands to lag economic reality, O'Reilly said.

11. (SBU) The unions also did not have the Labour government foremost in its thoughts as it planned its drive for wage increases. When the Prime Minister was asked by reporters about the campaign, she reacted coolly, suggesting that any pay negotiations should take into account the tax relief that the government was providing to low- and middle-income families beginning April 1. Conway acknowledged to post that the EPMU had failed to adequately brief the Prime Minister.

12. (U) Several government ministers have complained to the EPMU about the campaign, Conway said. The ministers worry that the industrial actions will become a campaign issue -- that the government will be blamed for low wages or for the inconvenience the strikes cause, particularly a bus drivers' action that repeatedly disrupted Auckland's commuter flow. The opposition National Party already has blamed the government's policies for the disruptions, claiming that tax cuts would be a more effective way to raise incomes for all New Zealanders.

13. (U) The ministers also worry about the effect on public-sector negotiations, with several contracts coming up for renewal later this year. The CTU is sensitive to these concerns, Conway said. For example, it has cautioned the striking bus drivers' union, which does not belong to the CTU, that it risked alienating the public with its week-long strike and rejection of a wage offer that appeared to be reasonable.

14. (U) Nonetheless, Conway asserted that recent labor activism was the result of the government not going far enough in reforming the nation's labor law and not making it easier to spread wage increases across industries. The unions had hoped the 2004 amendment would institute a multi-employer award system, similar to that in Australia. But the unions realized they would not win such a provision in

the face of employers' strong opposition to even "mild" elements of the amendment, Conway said.

¶15. (U) Meanwhile, government ministers are reported to be mystified at what some see as labor's ingratitude. Since 1999, in addition to the legislated protections for workers, the Labour government has provided an extra week of annual leave, for a total of four weeks' paid leave; boosted the minimum wage each year; increased wages for working on holidays; and, introduced paid parental leave.

Comment

¶16. (U) Old-time labor leaders can still recall when their unions could slam the brakes on the New Zealand economy and even bring about changes in political power. But those memories are fading. Today's reality is that labor unions wield limited political power and a marginal economic impact. As a result, they are pursuing a bid to revive their fortunes as shapers of the New Zealand economy and its social fabric. With the effects of the 2004 amendment still to be seen, it is too early to tell whether organized labor can convert such legislative victories into significant increases in public support and union membership. But the unions' actions -- coming soon before general elections and at what Finance Minister Cullen warns is the start of a long-predicted economic downturn -- could hardly have come at a worst time for the government.

SWINDELLS